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Approved For Release 2003/10/15 : CIA-RDP79T00975A001000090001-0

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11 January 1953

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DOS REVIEW  
COMPLETED

Copy No. 58

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**CURRENT INTELLIGENCE BULLETIN**

DOCUMENT NO. 9  
NO CHANGE IN CLASS. X  
☐ DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: 2009  
AUTH: HR 70-2  
DATE: 19 Dec 79 REVIEWER: [ ]

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Office of Current Intelligence

**CENTRAL INTELLIGENCE AGENCY**

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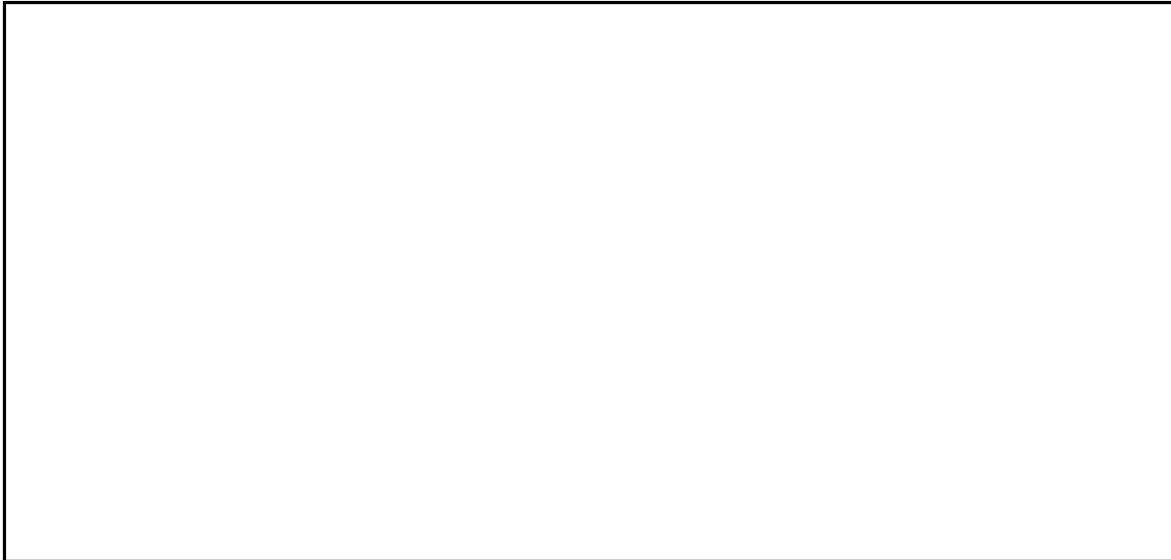
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FAR EAST



2. Possibility of Japanese Liberal Party realignment seen:

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Ambassador Murphy believes that the renewed struggle between the Yoshida and Hatoyama groups within the Liberal Party amounts to a search for fresh

leadership which may produce an entirely new balance of forces and cause the long-standing Yoshida-Hatoyama feud to lose its significance.

Murphy predicts a new three-way struggle among the pro-Yoshida group headed by Deputy Premier Ogata, a well-financed faction under Bukichi Miki which cuts across factional lines and enjoys strong rural support, and a neutral group advocating unity behind some non-partisan, supra-party figure.

Comment: While neither Ogata nor the neutral Liberal group is now believed to have sufficient strength to secure party control, a coalition of various conservative groups under Miki, which has been suggested by the press several times since November, would be a strong contender for control of the Liberal Party. The proximity of the party convention in late January has intensified the intra-party struggle for power.

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3. Expansion of arsenals in Communist China reported:

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[redacted] that during 1952 the number of arsenals in Communist China increased from 155 to 187, repair shops from 8 to 13, and explosives plants from none to five. This munitions industry employs an estimated 400,000 Chinese; 5,400 Russians and Japanese; and 600 Germans, Czechs, Poles and Koreans.

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Comment: In terms of its labor force, now 50 percent higher than the [redacted] estimate of early 1952, the munitions industry is one of the largest in Communist China. The expansion of the industry is probably an attempt to make China self-sufficient in small arms, light artillery and ammunition.

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NEAR EAST - AFRICA

4. Mossadeq makes another indirect plea for US assistance in the oil dispute:

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[redacted] Prime Minister Mossadeq informed Ambassador Henderson on 8 January that he is now compelled to fight the Communists, British agents, and opportunistic elements of the National Front. All three groups, Mossadeq complained, wished to eject the Americans from Iran. He claimed that he, himself, however, was anxious for the Americans to stay. He hoped that if the present oil negotiations failed, as he now feared they would, the United States would demonstrate its fairmindedness and friendship by buying Iranian oil.

Comment: Mossadeq's new attempt to extract American aid by emphasizing the Communist threat, together with his new plea for American purchase of Iranian oil, suggests that he still hopes to obtain American assistance in settling the dispute on his own terms.

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6. British Ambassador instructed to protest Egyptian anti-British statements:

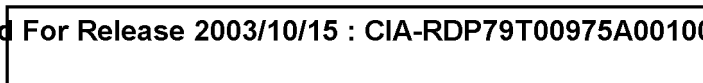
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The Counselor of the British Embassy in Cairo told Ambassador Caffery that instructions have been received to protest strongly against the anti-British statements of Colonel Nasr, an influential member of the Egyptian military regime.

The Counselor stated that the Egyptians are pursuing a very dangerous line. He warned that the resumption of guerrilla activities in the Canal zone, as threatened by Nasr,

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would precipitate the reoccupation of Egypt by Britain. Since the Egyptians will no longer listen to the British, he added, "somebody" should make the Cairo regime understand the facts of the present situation.

Ambassador Caffery comments that a "point of no return" is fast being reached. He fears that until the West gives Egypt "something more than sweet words," he will be unable to induce the Egyptians to avoid irresponsible actions.

Comment: There is no indication that Egypt's military leaders, despite their criticism of Britain, are prepared to let guerrilla activity break out at the present time in the Canal zone and thus bring countermeasures by British forces in the area.

Substantial progress, already made in reducing Anglo-Egyptian differences, may be lost, however, if both sides refuse to consider further concessions.

## EASTERN EUROPE

### 7. Tito denies possibility of Yugoslav neutralism:

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Marshal Tito denied to Ambassador Allen that his speech on 16 December implied a threat to return to neutralism or was directed against the policies of the United States. He stated emphatically that any form of neutralism was a practical and moral impossibility for Yugoslavia, and repeated earnestly that under no circumstances would he return to the Cominform.

It had been necessary for internal reasons, Tito said, to strike out hard against Italian attempts to make continued Western aid to Yugoslavia contingent upon political concessions. He explained, therefore, that the warning in his speech of "another outcome" was merely an attempt to prepare the people for a series of economy moves which would have

been necessary to alleviate the effects of the drought had no additional foreign aid been granted.

Comment:

25X1 [ ] rather than disavowing collaboration with the West, Marshal Tito is pressing for specific political and military commitments with the United States, Greece and Turkey.

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### WESTERN EUROPE

#### 8. East German First Air Division reportedly to be equipped with jets:

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The East German First Air Division is reportedly to be equipped with MIG-15 jet fighters. Flight personnel of all three regiments of the division reportedly started flight training with conventional aircraft at Cottbus, Bautzen and Kamenz airfields on 1 October.

Allied observers in Germany believe that an entire Soviet jet regiment with ground support units has been utilized for the training program in order to attain operational status within the shortest possible time.

Comment: The shipment of jet aircraft to Kamenz has been previously reported.

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